TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
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6	DDA	X			
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC		X		
11	IG				
12	Compt		X		
13	D/OLL		X		
14	D/PAO				
15	VC/NIC				
16	D/Pers		X		
17	ES		X		
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SUSPENSE ASAP
Date

Remarks Once again, we learned of this DPC meeting dealing with retirement at the last minute. The papers were obtained at 11:45; the meeting is at 1500 tomorrow.
To 6: Please analyze this package and prepare talking points for DCI/DDCI.

Executive Secretary
29 Oct 85
Date

3637

REISSUED COPY - BETTER QUALITY

STAT

THE WHITE HOUSE

WASHINGTON

October 28, 1985

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

FROM: RALPH BLEDSOE Ralph Bledsoe
Executive Secretary

SUBJECT: Meeting on October 30, 1985

Attached are an agenda and materials for the Domestic Policy Council meeting scheduled for Wednesday, October 30, at 3:00 p.m. in the Roosevelt Room. Two topics will be discussed.

The first agenda item will include discussion of a proposed educational voucher bill prepared by the Department of Education. The draft bill, entitled The Equity And Choice Act of 1985 (TEACH), would allow parents of economically and educationally deprived children to request a voucher to secure Chapter 1 (Education Consolidation and Improvement Act) benefits. The President has endorsed the idea many times, and the bill will soon be introduced. A brief memorandum and outline of the proposed Act is attached. Secretary Bennett would like the thoughts of Council members on the issue and on strategies for obtaining support.

The second agenda item will include a summarization of issues emerging from Congress as they attempt to pass a new Federal Employees Retirement System, which must be in place by January 1, 1986. This subject was also discussed at the Council meeting on July 24, 1985. Overall, the Office of Personnel Management feels that legislation is moving in a direction unacceptable to the Administration. One of the specific problem areas that will be discussed is a recommendation for a Thrift Investment Board. Connie Horner, OPM Director, will discuss options we might pursue in this and other problem areas. A paper is attached, containing a brief status description of some of the legislative actions.

L-300 A

THE WHITE HOUSE

WASHINGTON

DOMESTIC POLICY COUNCIL

Wednesday, October 30, 1985

3:00 p.m.

Roosevelt Room

AGENDA

1. Education Vouchers

2. Federal Employees Retirement System

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

Office of the Director

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

FROM: Constance Horner
Director

Constance Horner

SUBJECT: The New Federal Employees Retirement System

Background

The Government needs a new retirement system for Federal employees hired after December 31, 1983 because they are now covered by Social Security. (The existing retirement plan was designed to apply to a workforce not covered by Social Security.) The current transitional arrangement expires December 31, 1985.

Legislative Status

Senators Roth and Stevens--with support from Democrats--have reported out of Committee a bill (S. 1527) to create a new retirement system. Under their bill, the Government would sponsor a three-tier system: (1) Social Security benefits for basic protection; (2) a defined benefit tier with options for Government-pay-all or alternatively, additional employee contributions in exchange for earlier retirement eligibility and additional cost-of-living protection; and (3) a 401(k) type capital accumulation plan.

Representatives Ford and Oakar also have outlined a three-tier proposal which is more expensive than S. 1527 and even more costly than the current system.

Features of the Roth-Stevens plan and the Ford-Oakar proposal are compared to the existing civil service retirement system and typical private sector plans in the accompanying handout.

Pertinent Considerations

- o During early formulation of S. 1527, Senators Roth and Stevens discussed its basic elements with Chief of Staff Regan, who indicated general support of their approach

with the caveat that the bill should come close to Budget (approximately 20% of payroll) and that 100% COLAs would be unacceptable. As introduced, S. 1527 met these criteria and reflected the Domestic Policy Council's position concerning law enforcement personnel. However, its 401(k) provision conflicted with the President's proposed Tax Reform.

- A more costly S. 1527 which includes 100% COLAs at age 62 or 67 and provides benefits at age 55, has emerged from Committee. It contains troublesome provisions establishing a Thrift Investment Board.

- Clearly, the Roth-Stevens bill is evolving in an unacceptable direction. Moreover, it is simply a starting point for conference with the House.

Emerging Issue

There are three troublesome provisions associated with the Thrift Investment Board:

1. S. 1527 now contains explicit provision for "social investing";

2. Secretary Baker and Chairman Volcker, two of the proposed board members, have identified inherent conflicts of interest between the fiduciary nature of the board and their official positions; and

3. The Department of Justice advises that placing the board's responsibility within the Executive branch is fundamentally inconsistent with ERISA's enforcement scheme.

Options

1. Invest only in Treasury securities eliminating the need for a Thrift Board.

2. Adopt Justice's suggestion to have the fund managed totally by private investment advisors, subject to existing fiduciary and other obligations.

3. Adopt "Thrift Plan Vouchers" permitting employees to deal directly with qualified private sector investment firms.

We recommend that the Domestic Policy Council consider these options or others that may be proposed.

UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

October 25, 1985

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

Subject: Chapter I Voucher Bill

Attached is a two-page summary of an educational voucher bill that has been cleared by the Office of Management and Budget and the Department of Justice.

This issue is not a new one. The President endorsed the idea numerous times, most recently at the White House ceremony honoring exemplary schools from around the country. It will be introduced in Congress shortly. However, given that the proposal appeals to population groups not normally considered part of the Reagan coalition, we thought it would be useful to get the thoughts of the Domestic Policy Council on it as well and ask the President to elevate the issue through a speech or a Saturday morning address.

We look forward to your thoughts.

William J. Bennett

William J. Bennett

Attachment

THE EQUITY AND CHOICE ACT OF 1985 (TEACH)

The Current Chapter 1 Program

Chapter 1 of the Education Consolidation and Improvement Act authorizes federal funds to be used by local educational agencies (LEAs) to provide educational services to children who are economically and educationally disadvantaged. Fifty-five percent of these children are from minority families.

Typically, these services are provided during the regular school day by trained specialists in separate classrooms. In some cases, instruction is offered after school. To be consistent with the Supreme Court's ruling in Aguilar v. Felton, services to religiously affiliated private school students must be provided at neutral sites outside the school.

The Equity and Choice Act of 1985 (TEACH)

The President's TEACH proposal allows Chapter 1 parents to request a voucher to secure Chapter 1 benefits for their children. The parents would then choose to:

1. have their children receive compensatory services under regular Chapter 1 programs for children enrolled in public and private schools;

2. use the educational vouchers to pay for tuition, if any, or compensatory services (or for a combination of tuition and services) for their children who are enrolled at public schools outside the school attendance areas where the children reside;

3. use the educational vouchers to pay for tuition or compensatory services, or both, for their children enrolled at private schools; or

4. use the educational vouchers to pay for tuition or compensatory services, or both, for their children enrolled at public schools outside the school districts where they reside.

* No voucher could be used to enroll children in schools that are racially discriminatory. However, the mere fact that federal funds are used by parents as tuition does not render the school a recipient of federal financial assistance.

* An eligible school must have a full-time program of elementary or secondary instruction, and an employed faculty that teaches students at a regular location. The bill does not require that the school be state approved.

* The bill allows the use of Chapter 1 funds for administrative costs necessary to implement the voucher option.

* An annual public meeting, including representatives of public and private schools, parents and members of the community, will be held to discuss the uses of educational vouchers.

Benefits of TEACH

The voucher option promotes social justice and educational excellence. According to a 1985 Gallup Poll, 59 percent of blacks and 53 percent of those living in central cities support educational vouchers. TEACH provides several important benefits.

- It gives educationally deprived children a greater range of compensatory educational alternatives.

- It gives poor families some of the educational choices already available to affluent families who can select a school through choice of neighborhood or choice of private school.

- It creates market incentives and competition which will lead to significant improvement in the provision of Chapter 1 services.

- It will improve the quality of Chapter 1 instruction by encouraging greater involvement of parents in their children's education.

- It will improve the quality of teaching. According to a Hofstra University study, teachers in choice programs are more committed to teaching and have higher levels of job satisfaction.

- It is a constitutional method of fulfilling the congressional mandate of Chapter 1 after the Supreme Court's ruling in *Aguilar* v. *Felton*.

10/24/85

COMPARISON OF PROPOSED RETIREMENT PLANS WITH CURRENT SYSTEM AND PRIVATE SECTOR

Feature	Roth/Stevens Bill Option A	Roth/Stevens Bill Option B	Ford/Oakar Bill	Current CSRS	Typical Private Sector
Employer cost	About 22%	About 22%	About 25.5%	25.0%	17 - 19%
Required employee contribution	FICA only	7% including FICA	FICA Plus 1.3%	7% of pay	FICA only
Salary Base for annuity	High 5	High 5	High 3	High 3	High 5
Vesting	5 years	5 years	5 years	5 years	10 years
COLA's	None before age 62; 62-66, CPI minus 2%; 67 and above, full CPI. CPI minus 2% for surviviors and disabled to 67.	From 55-61, CPI minus 2%; at 62 and above, full CPI. Full CPI for survivors and disabled	Full CPI	Full CPI	None other than ad hoc's
Eligibility for annuity					
Unreduced	Age 62 & 5 years	Age 55 & 30 years; age 62 & 5 years	Same as current CSRS	Age 55 & 30 years; age 60 & 20 years; age 62 and 5 years	Age 65
Reduced	Age 55 & 30 years: 2% penalty for each year under age 62; age 55 & 10 years: 5% penalty for each year under 62	Age 55 & 10 years: 5% penalty for each year under 62	None	None	Age 55 and 10 years; 5% per year penalty under age 62; plus 3% per year penalty for ages between 62 and 65 if less than 30 years of service

Feature	Roth/Stevens Bill Option A	Roth/Stevens Bill Option B	Ford/Oakar Bill	Current CSRS	Typical Private Sector
Involuntary	Age 50 & 20 years or any age & 25 years: 2% penalty for each year under 62	Age 50 & 20 years or any age & 25 years: 2% penalty for each year under age 62	Same as current CSRS	Age 50 & 20 years or any age & 25 years; 2% penalty for each year under 55	Varies
Deferred	If vested, full accrued benefits at 62 or at 55 with penalty	If vested, full accrued benefits with age and service eligibility or at 55 with penalty	Same as current CSRS	If vested, full accrued benefits at 62	If vested, full accrued and reduced benefits available
Thrift plan (defined contribution)	Employee may contribute 0-10% of pay; full employer matching of first 5%, tax-deferred until retirement. Graded vesting	Employee may contribute 0-10% of pay; full employer matching first 1%, half matching from 2-3%, and quarter matching from 4-6%; tax-deferred until retirement. Graded vesting	Employee may contribute 0-10% of pay. Government matches 50% of the first 6% contributed. Tax deferred until retirement. Graded vesting	None	Employee may contribute 0-10% of pay; Employer matches 50% of first 6% contributed. Graded vesting
Withdrawal	No contributions, thus no refund	Employee may withdraw contributions with interest. If vested, option A benefit becomes payable	Employee may withdraw own contribution with interest and thrift account, and still retain an interest in any remaining deferred benefit	If vested an employee may withdraw own contribution without interest, and forfeit future benefit	No contributions, thus no refunds

Feature	Roth/Stevens Bill Option A	Roth/Stevens Bill Option B	Ford/Oakar Bill	Current CSRS	Typical Private Sector
Optional Transfer	Employees may transfer from CSRS until Jan. 1, 1988, starting fresh in the new system; credit frozen in CSRS, with benefits based on final High-3	Same as Option A	Transfer not available	N.A.	N.A.
Transition	Employees hired after 1983 would receive thrift plan credit for their previous CSRS contributions	Same as Option A	Unclear from available material	N.A.	N.A.
Pre-Retirement Survivor Benefits	Half of accrued pension payable immediately and for life. Reduction may apply, depending on employee's age/service	Half of accrued pension payable immediately and for life, No reduction. Service deemed minimum of 10 years.	Generally 22% of High-3 salary minus Social Security payable for life of survivor	Generally 22% of High-3 for life of survivor	50% of accrued joint and survivor benefit payable when employee would have reached age 55
Post-Retirement Survivor Benefits	10% reduction in employee's benefits for life. Survivor gets 50% of employee's unreduced annuity	Same as Option A, except 10% reduction stops at death of spouse	10% reduction in employee's benefits. Survivor get 50% of employee's unreduced annuity	Approximately 8% reduction. Survivor gets 55%	Full actuarial reduction; survivor gets 50%
Disability Benefits	60% of High-5 to age 62, if Social Security disability definition is met. Otherwise 40% to age 55. Time disabled included in service for annuity.	Same as Option A	Generally 20% of High-3 salary plus Social Security for life of disabled employee. If not SSA eligible, supplement paid to age 62	Generally 40% of High-3 for life of disabled employee	After 6 month waiting period, 60% of final pay minus 100% of Social Security benefit. Paid until normal retirement age